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AUDITOR-GENERAL SOUTH AFRICA

Auditor-General of South Africa

Imbabazane Local Municipality – audit report 2015-16

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Imbabazane Local Municipality

Report on the financial statements

Introduction

1. I audited the financial statements of the Imbabazane Local Municipality set out on pages … to …, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Imbabazane Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

7. There are various claims against the municipality as disclosed in note 26 to the financial statements. The ultimate outcome of the matters was not determinable at year end and no provision for any liability that may result was made in the financial statements.

Events after balance sheet date

8. As disclosed in note 35 to the financial statements, the municipality was affected by the re-determination of boundaries in terms of the Provincial Notice 151 of 2016 issued in the Provincial Gazette No 1723, dated, 29 July 2016. The Department of Cooperative Governance and Traditional Affairs issued a notice in terms of Section 12 of the Local Government : Municipal Structures Act, 1998 for the disestablishment of the Imbabazane Local Municipality and Umtshezi Local Municipality and the establishment of the new Inkosi Langalibalele Local Municipality. The Imbabazane Local Municipality will cease to exist as at 9 August 2016.

Restatement of corresponding figures

9. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered during 2016 in the financial statements of the Imbabazane Local Municipality at, and for the year ended, 30 June 2015.

Material losses

10. As disclosed in note to the financial statements, the municipality raised a provision for bad debt impairment amounting to R2,20 million (2015: R626 000) on consumer debts as the recoverability of these amounts is doubtful.

Additional matter

11. I draw attention to the matter below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

12. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

13. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priority presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the Basic service delivery and infrastructure development priority presented in the annual performance report of the municipality for the year ended 30 June 2016.

16. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

17. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned development priority. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

19. I did not identify any material findings on the usefulness and reliability of the reported performance information for the Basic service delivery and infrastructure development priority.

Additional matters

I identified no material findings on the usefulness and reliability of the reported performance information for the selected objective, however, I draw attention to the following matters:

Achievement of planned targets

20. The annual performance report on pages x to x includes information on the achievement of the planned targets for the year.

Unaudited supplementary schedules

21. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

Adjustment of material misstatements

22. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for the Basic service delivery and infrastructure development priority. As management subsequently corrected the misstatements, I did not identify any material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

23. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

24. The local community was not consulted by means of a municipal wide structure for community participation/through a forum that enhances community participation in drafting and implementing the Integrated development plan (IDP), as required by section 28 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and Municipal Planning and Performance Management Regulation (MPPMR) 15(1)(a)(i).

25. The local community was not afforded the opportunity to comment on the final draft of the integrated development plan(IDP) before adoption, as required by section 42 of the MSA and MPPMR 9, 13(1), 13(4)(c) and 15(3).

Annual financial statements and Annual report

26. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of repairs and maintenance, property plant and equipment, payables from

exchange transactions, receivables and commitments identified by the auditors in the submitted financial statements were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

27. The annual performance report for the year under review did not include the performance of each external service provider and measures taken to improve performance as required by section 46 (1)(a) and (c) of the MSA.

Procurement and contract management

28. I could not obtain sufficient appropriate audit evidence that all contracts were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as information could not be furnished for audit.

29. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).

Expenditure management

30. Effective steps were not taken to prevent irregular expenditure and fruitless and wasteful expenditure as disclosed in note 27.1 of the financial statements in contravention of section 62(1)(d) of the MFMA.

Consequence management

33. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Internal control

31. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the compliance with legislation included in this report.

Leadership

32. Leadership did not provide adequate oversight and monitoring over the preparation of the annual financial statements and annual performance report, and compliance with key legislation relating to procurement and contract management and expenditure. This was due to lack of commitment and competence of management in monitoring and addressing internal control deficiencies related to effective financial and performance reporting.

Financial management

33. Management has not implemented a proper record keeping system to ensure that complete, relevant and accurate information is accessible and available to support

transactions relating to procurement and contract management.

Other reports

34. An independent firm is conducting an investigation at the request of the municipality council relating to possible disciplinary processes against municipal manager and other senior managers regarding allegations of illegal staff salary increase from February 2015. The investigation was completed during the 2015/16 financial year.

Auditor-General

Pietermaritzburg

30 November 2016

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